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when other forms of contract financing are provided.

(d) For Government accounting purposes, the Government should treat performance-based payments like progress payments based on costs under subpart 32.5.

(e) Performance-based payments are contract financing payments and, therefore, are not subject to the interest-penalty provisions of prompt payment (see subpart 32.9). However, each agency must make these payments in accordance with the agency's policy for prompt payment of contract financing payments.

[65 FR 16281, Mar. 27, 2000]

32.1002 Bases for performance-based payments.

Performance-based payments may be made on any of the following bases:

- (a) Performance measured by objective, quantifiable methods;
- (b) Accomplishment of defined events; or
- (c) Other quantifiable measures of results.

32.1003 Criteria for use.

The contracting officer may use performance-based payments only if the following conditions are met:

- (a) The contracting officer and offeror are able to agree on the performance-based payment terms;
- (b) The contract is a fixed-price type contract; and
- (c) The contract does not provide for other methods of contract financing, except that advance payments in accordance with subpart 32.4, or guaranteed loans in accordance with subpart 32.3 may be used.

[60 FR 49715, Sept. 26, 1995, as amended at 65 FR 16282, Mar. 27, 2000; 67 FR 70521, Nov. 22, 2002]

32.1004 Procedures.

Performance-based payments may be made either on a whole contract or on a deliverable item basis, unless otherwise prescribed by agency regulations. Financing payments to be made on a whole contract basis are applicable to the entire contract, and not to specific deliverable items. Financing payments to be made on a deliverable item basis

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are applicable to a specific individual deliverable item. (A deliverable item for these purposes is a separate item with a distinct unit price. Thus, a contract line item for 10 airplanes, with a unit price of \$1,000,000 each, has 10 deliverable items—the separate planes. A contract line item for 1 lot of 10 airplanes, with a lot price of \$10,000,000, has only one deliverable item—the lot.)

(a) *Establishing performance bases.* (1) The basis for performance-based payments may be either specifically described events (*e.g.*, milestones) or some measurable criterion of performance. Each event or performance criterion that will trigger a finance payment must be an integral and necessary part of contract performance and must be identified in the contract, along with a description of what constitutes successful performance of the event or attainment of the performance criterion. The signing of contracts or modifications, the exercise of options, or other such actions must not be events or criteria for performance-based payments. An event need not be a critical event in order to trigger a payment, but the Government must be able to readily verify successful performance of each such event or performance criterion.

(2) Events or criteria may be either severable or cumulative. The successful completion of a severable event or criterion is independent of the accomplishment of any other event or criterion. Conversely, the successful accomplishment of a cumulative event or criterion is dependent upon the previous accomplishment of another event. A contract may provide for more than one series of severable and/or cumulative performance events or criteria performed in parallel. The contracting officer must include the following in the contract:

- (i) The contract must not permit payment for a cumulative event or criterion until the dependent event or criterion has been successfully completed.
- (ii) The contract must specifically identify severable events or criteria.
- (iii) The contract must identify which events or criteria are preconditions for the successful achievement of each cumulative event or criterion.